

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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MEMORANDUM

July 28, 2008

To: Members of the Committee on Oversight and Government Reform

Fr: Chairman Henry A. Waxman

Re: Universal Service Fund High Cost Program Subsidies

Today I am sending letters to 24 companies that collectively receive billions in Universal Service Fund (USF) subsidies to provide service in so called "high-cost" areas throughout the United States and Puerto Rico. This memorandum provides background about this issue and explains why I have written the companies.

In 1997, the Federal Communications Commission (FCC) established the Universal Service Fund (USF) to provide communities across the United States with affordable telecommunications services, regardless of location. To provide support for the fund, most consumers currently pay a surcharge of more than 11% each month on their interstate calls.¹ This surcharge is usually reflected in a phone bill line item, typically labeled a "universal service fee."

The FCC established the Universal Service Administrative Company (USAC) to distribute collected funds to programs intended to lower the cost of telecommunications services for schools and libraries, rural health care providers, low income customers, and customers who live in expensive-to-serve areas. The largest USF program is the High Cost Program, which subsidizes eligible telecommunications providers in high-cost, rural, or insular areas to ensure that consumers in such regions have access to services and rates that are reasonably comparable to services and rates in urban areas.

In an effort to understand which carriers are receiving the most USF funds, I asked FCC Chairman Kevin Martin to provide a list of the ten largest recipients of High Cost Program subsidy dollars for calendar years 2006, 2007, and 2008, as well as a list of the ten largest per-

¹ See e.g., Federal Communications Commission, Public Notice, *Proposed Third Quarter 2008 Universal Service Contribution Factor*, CC Docket No. 96-45 (June 11, 2008).

line subsidies by location for calendar years 2006 and 2007.² On June 23, 2008, Chairman Martin provided the Committee with the requested information.³

According to the information provided by the FCC, the top ten recipients of High Cost Program dollars received more than \$6 billion in subsidies between 2006 and 2008. Among the “top-ten” recipients of USF subsidies are large corporations, including AT&T (\$1.3 billion in subsidies), Alltel (\$967 million), Verizon (\$915 million), CenturyTel (\$870 million), Telephone and Data Systems, Inc. (\$558 million), Embarq (\$310 million), Citizens Communications Company (\$300 million), Sprint Nextel (\$282 million), Windstream (\$250 million), Qwest (\$233 million), and America Movil (\$140 million).⁴

The FCC information also showed that the per-line subsidies range from a low of over \$4,000 per year to a high of over \$13,000 per year. Beaver Creek Telephone Company in Washington and Sandwich Isles Communications in Hawaii received the highest per-line subsidies of \$13,660 and \$13,535 per-line in 2007, respectively.

Questions have been raised about the size and growth of these subsidies. According to the Government Accountability Office, the USF High Cost Program has “raised concerns about what the program is accomplishing, whether it has clear objectives, and whether it has effective controls over expenditures.”⁵ Many believe that the fund is not sustainable at current levels because it will eventually become too expensive to support without any limits on growth. Others have expressed concern that the program is subject to extensive waste, fraud, and abuse. Several legislative proposals that would modify the USF have been introduced in the House of Representatives and the Senate.⁶ The FCC is also considering a number of proposed reforms.⁷

To help answer these questions, Congress needs more information about how the corporations receiving these subsidies are spending the subsidies and disclosing their activities to

² Letter from Chairman Henry A. Waxman to Chairman Kevin J. Martin (June 9, 2008) (online at www.oversight.house.gov/story.asp?id+2005).

³ Letter from Chairman Kevin J. Martin to Chairman Henry A. Waxman (June 23, 2008) (attached).

⁴ These numbers, which have been rounded up where appropriate, are based on 2006, 2007, and FCC projections for full year 2008. America Movil, a large Mexican telecommunications company, displaced Qwest on the “top-ten” in 2008. America Movil did not receive any support for 2006, but for 2007 and 2008 it received \$140 million in High Cost Program subsidies. Both Qwest and America Movil are receiving a letter of inquiry from the Committee.

⁵ Government Accountability Office, *Telecommunications: FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program*, at 3 (June 2008) (GAO/08-633).

⁶ Congressional Research Service, *Universal Service Fund: Background and Options for Reform*, at 8-24 (updated May 16, 2008).

⁷ *Id.*

consumers and regulators. For that reason, I am requesting information and documents from 24 corporations receiving subsidies from the High Cost Program since 2006. This inquiry is consistent with the Committee's strong interest in ensuring accountability in both the government and the private sector and may offer useful information to state and federal policymakers as they formulate proposals for USF reform.

I want to emphasize that I am not implying that any of these companies have violated applicable FCC rules, policies, and procedures regarding their receipt of USF subsidies or acted illegally. I do believe, however, that this program would benefit from oversight by our Committee.

If your staff has any questions about this investigation, the Committee's staff contacts are Roger Sherman and Alison Cassady at (202) 225-5051.